

Instructions for Form 5471

(Revised October 1990)

Information Return of U.S. Persons With Respect to Certain Foreign Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to IRS
5471	79 hrs., 10 min.	23 hrs., 57 min.	29 hrs., 53 min.
Sch. M (5471)	24 hrs., 23 min.	24 min.	49 min.
Sch. N (5471)	8 hrs., 22 min.	3 hrs., 35 min.	3 hrs., 52 min.
Sch. O (5471)	10 hrs., 31 min.	12 min.	23 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

General Instructions

A. Purpose of Form

Form 5471 is used by certain U.S. citizens and residents who are officers, directors, or shareholders in certain foreign corporations. The form and schedules are used to satisfy the reporting requirements of sections 6035, 6038, 6046, and the related regulations.

B. Who Must File

Generally, the U.S. persons described in the "Categories of Filers" below must complete the schedules, statements, and/or other information requested after the appropriate description(s). Please read each of the categories of filers carefully to determine which schedules, statements, and/or information apply. Do not duplicate information if you are described in more than one filing category. However, you must complete all schedules that apply to you. For example, if you are completing Form 5471 with respect to a controlled foreign corporation (CFC) that is also a foreign personal holding company (i.e., you are described in both Categories (1) and (4)), you would complete all four pages of Form 5471 (except Schedule I on page 4 of Form 5471) and separate Schedules M and N.

You must complete a separate Form 5471 and the applicable schedules for each foreign corporation.

Categories of Filers

(1) A Category (1) filer is a U.S. citizen or resident who is an officer, director, or "10% shareholder" of a foreign personal holding company. See Regulations section 1.6035-1(b)(2) for the definition of a 10% shareholder and section 552 for the definition of foreign personal holding company.

Category (1) filers must complete page 1 of Form 5471, Schedule B on page 2 of Form 5471, and separate Schedule N. Also complete Schedule K if you are filing Form 5471 and Schedule N for another person who has the same filing requirements. See the instructions for Schedule K on page 8.

(2) A Category (2) filer is a U.S. citizen or resident who is an officer or director of a foreign corporation with respect to which, since the last time Form 5471 was filed, a "U.S. person" has "acquired" (in one or more transactions): (a) stock of the foreign corporation which gives that person ownership of 5% or more in value of the outstanding stock of the foreign corporation, or (b) an additional 5% or more in value of the outstanding stock. See Regulations sections 1.6046-1(f)(1) and (3) for the definitions of "U.S. person" and "acquired."

Category (2) filers must complete the identifying information on page 1 of Form 5471 (i.e. everything above Schedule A) and Part I of separate Schedule O. Also complete Schedule K if you are filing Form 5471 and Schedule O for another person who has the same filing requirements. See the instructions for Schedule K on page 8.

(3) A Category (3) filer is:

(a) a "U.S. person" who has "acquired" (in one or more transactions) stock in a foreign corporation that gives the U.S. person ownership of 5% or more in value of the outstanding stock of the foreign corporation;

(b) a U.S. person who, since the last time Form 5471 was filed, has acquired (in one or more transactions) additional stock of the corporation equal to 5% or more of the value of the outstanding stock of the foreign corporation;

(c) a U.S. person who owns 5% or more in value of the outstanding stock of the

foreign corporation when the foreign corporation is "reorganized";

(d) a U.S. person who disposes of sufficient stock in the foreign corporation to reduce his or her interest to less than 5% of the outstanding value of the stock of the foreign corporation; or

(e) a person who becomes a U.S. person while owning 5% or more in value of the outstanding stock of the foreign corporation.

See Regulations sections 1.6046-1(f)(1) through (3) for the definitions of "U.S. person," "acquired," and "reorganized."

Category (3) filers must complete the first three pages of Form 5471 (i.e., the identifying information on page 1 above Schedule A, Part I of Schedule A, and Schedules B through G) and Part II of separate Schedule O. Category (3) filers must also attach a statement showing the amount and type of any indebtedness of the foreign corporation to the related persons described in Regulations section 1.6046-1(b)(11) and a statement showing the name, address, identifying number, and number of shares subscribed to by each subscriber to the stock of the foreign corporation. Also complete Schedule K if you are filing Form 5471 and Schedule O for another person who has the same filing requirements. See the instructions for Schedule K on page 8.

(4) A Category (4) filer is a "U.S. person" who had "control" of a foreign corporation for an uninterrupted period of at least 30 days during the annual accounting period of the foreign corporation. **Exception:** A U.S. person is not required to file for a corporation defined in section 1504(d) that files a consolidated return for the tax year.

See Regulations sections 1.6038-2(b) and (d) for the definitions of "U.S. person" and "control."

Category (4) filers must complete all four pages of Form 5471 (except Schedule I on page 4 of Form 5471) and separate Schedule M. Also complete Schedule K if you are filing Form 5471 and Schedule M for another person who has the same filing requirements. See the instructions for Schedule K on page 8.

(5) A Category (5) filer is a "U.S. shareholder" who "owns" stock in a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned that stock on the last day of that year. See sections 951(b), 953(c)(1)(A), and Regulations section 1.951-1(g) for the definition of "U.S. shareholder." See section 958(a) for the definition of "owns" and sections 953(c)(1)(B) and 957 for the definition of a CFC.

A Category (5) filer must complete page 1 of Form 5471 (i.e., the identifying information on page 1 above Schedule A) and Schedules H, I, and J. **Exception:** Category (5) filers are not required to file with respect to a foreign corporation that has elected under section 953(d) to be treated as a domestic corporation and has filed a U.S. income tax return for its tax year under that provision.

Foreign Sales Corporations (FSCs).—

Category (2) and (3) filers who are shareholders, officers, and directors of a FSC (as defined in section 922) do not have to file Form 5471 and separate Schedule O to report the organization of a FSC. However, any subsequent reorganization, transfer,

acquisition, or disposition of stock of the FSC must be reported.

Category (5) shareholders of a FSC should not include the following income and deductions on Schedules H, I, and J:

- a. exempt foreign trade income;
- b. deductions that are apportioned or allocated to exempt foreign trade income;
- c. nonexempt foreign trade income (other than "section 923(a)(2) nonexempt income, within the meaning of section 927(d)(6));
- d. any deductions that are apportioned or allocated to the income referred to in item c above.

However, include on Schedules H, I, and J, all other types of FSC income (including "section 923(a)(2) nonexempt income" (within the meaning of section 927(d)(6)), investment income and carrying charges (as defined in sections 927(c) and (d)(1)), and all other FSC income that is not foreign trade income or investment income or carrying charges.

C. When and Where To File

Form 5471 is due when your income tax return is due, including extensions. File two copies of the form and required schedules. Attach one copy to your income tax return. Send the other copy to the Internal Revenue Service Center Philadelphia, PA 19255.

Penalty for Failure To File Information Required By Section 6035 and the Related Regulations (Form 5471 and Schedule N).—Any person who fails to file or report all of the information requested may be subject to a penalty of \$1,000 (section 6679). Furthermore, criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

Any person required to file Form 5471 and Schedule N who agrees to have another person file the form and schedule for him or her may be subject to the penalties described above if the other person does not file a correct and proper form and schedule.

Penalty for Failure To File Information Required By Section 6038 and the Related Regulations (Form 5471 and Schedule M).—Any person who fails to file or report all of the information requested will lose a portion of the foreign taxes available for credit under sections 901, 902, and 960. The reduction is 10% of the taxes available for credit for failure to submit the information when required. Furthermore, if the failure continues for 90 days or more after notice of the failure by IRS, an additional 5% reduction is made for each 3-month period, or fraction thereof, during which the failure continues after the 90-day period has expired. See section 6038(c)(2) for limits on the amount of this penalty.

Also, a penalty of \$1,000 is imposed for each annual accounting period of each foreign corporation for which failure to furnish any information described in Regulations sections 1.6038-2(f) and (g) within the time prescribed by Regulations section 1.6038-2(i) occurs. Furthermore, if the required information is not filed within 90 days after IRS has mailed a notice to the U.S. person of the failure, an additional \$1,000 penalty (per foreign corporation) is charged for each 30-day period, or fraction thereof, during which the failure continues after the 90-day period has expired. The additional penalty is limited to a maximum of \$24,000 for each failure. See section

6038(c)(3) and Regulations section 1.6038-2(k)(2)(vi) for rules coordinating these penalties.

Criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

Any person required to file Form 5471 and Schedule M who agrees to have another person file the form and schedule for him or her may be subject to the penalties described above if the other person does not file a correct and proper form and schedule.

Penalty for Failure To File Information Required By Section 6046 and the Related Regulations (Form 5471 and Schedule O).—Any U.S. person who fails to file or report all of the information requested may be subject to a penalty of \$1,000 for each such failure with respect to each reportable transaction (section 6679(a)). Furthermore, criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

Any person required to file Form 5471 and Schedule O who agrees to have another person file the form and schedule for him or her may be subject to the above penalties if the other person does not file a correct and proper form and schedule.

D. General Reporting Requirements

(1) Fill in all applicable lines and sections. If the information you are required to furnish in a given section exceeds the space provided within that section, please complete all entry spaces in that section and attach the remaining information on additional sheets that are in conformity with the IRS version of that section. Do not write "see attached" in the section and attach all of the information on the additional sheets.

(2) All information reported on the form must be in the English language.

(3) **U.S. dollar reporting requirement.**—Regulations sections 1.6038-2(h) and 1.6046-1(g) require all amounts reported on Form 5471 (and the related separate Schedules M, N, and O) to be stated in U.S. dollars. However sections 985 and 986 require that, for post-1986 tax years, all U.S. tax determinations are based on computations made in the foreign corporation's functional currency. To enable the IRS to process the form, you must first compute the relevant information in the foreign corporation's functional currency and then translate all amounts to U.S. dollars at the weighted average exchange rate for the year. (See Temporary Regulations section 1.989(b)-1T). Please enter the exchange rate used and identify the relevant functional currency in the entry space above line 1b on page 1 of the form. **Exception:** A foreign corporation that has elected to use the U.S. dollar as its functional currency under Regulations section 1.985-2(a) must report all amounts in U.S. dollars computed in accordance with the regulations under section 985. Attach a schedule that identifies the exchange rates used.

(4) **Computer-Generated Form 5471 and Schedules.**—You may submit computer-generated printouts of Form 5471 and its schedules. Generally, all computer-generated forms must receive prior approval, each year from the IRS. Every year the IRS issues a Revenue Procedure to provide guidance for filers of computer-generated forms. (The most recent such Revenue Procedure issued before these instructions went to print was Rev. Proc

90-8, 1990-1 C.B. 434.) Please submit all requests for approval to: Internal Revenue Service, Attention: Substitute Forms Program, R:R:R, 1111 Constitution Avenue, N.W. Washington, DC 20224.

E. Treaty-Based Return Positions

U.S. persons that "adopt a return position" (see Regulations section 301.6114-1(a)(2)) that any treaty of the U.S. (including, but not limited to, an income tax treaty, estate and gift tax treaty, or friendship, commerce and navigation treaty) overrides or modifies any provision of the Internal Revenue Code and thereby effects (or potentially effects) a reduction of any tax incurred at any time, generally must disclose that return position on a statement (in the form required by Regulations section 301.6114-1(d)). Attach the statement to Form 5471. See section 6114 and Regulations section 301.6114-1 for details.

Failure to make such a report may result in a penalty of \$10,000.

Specific Instructions

Period for which information is reported.—Enter, in the space provided under the title of Form 5471, the annual accounting period of the foreign corporation for which you are furnishing information. If you are preparing Form 5471 for a "specified foreign corporation" (defined below), its annual accounting period is the "tax year required by section 898" (defined below). Except for information contained on Schedule O, report information for the tax year of the foreign corporation that ends with or within your tax year. When filing Schedule O, report acquisitions, dispositions, and organizations or reorganizations that occurred during your tax year. **Note:** If you are preparing Form 5471 for a "specified foreign corporation," see Rev. Proc. 90-26, 1990-1 C.B. 512, for wording (which pertains to whether the corporation made an election under section 898(c)(1)(B) and whether such corporation changed its tax year to conform such tax year to the "tax year required by section 898") that must be entered in the upper left hand corner on page 1 of Form 5471.

Tax year required by section 898.—For tax years beginning after July 10, 1989, the tax year of a "specified foreign corporation" is generally required to be the tax year of the corporation's "majority U.S. shareholder" (see section 898(c) for details).

A "specified foreign corporation" is any foreign corporation: (1) that is treated as a CFC for any purpose under subpart F or that is a foreign personal holding company (as defined in section 552); and (2) that meets the more than 50% U.S. ownership requirements of section 898(b)(2).

See section 7401(d)(2) of the Revenue Reconciliation Act of 1989 for special rules with respect to a change in tax year of a specified foreign corporation for its first tax year beginning after July 10, 1989.

Name change.—If either the name of the person filing this return or the corporation whose activities are being reported has changed since the last time information was reported, attach a statement explaining the change and showing the prior name.

Item A. Identifying number of filer.—The identifying number of an individual is his or her social security number. The identifying

number of all others is their employer identification number

Item C.—Enter the total percentage of the voting stock of the foreign corporation you owned directly, indirectly, or constructively at the end of the corporation's annual accounting period.

U.S. dollar reporting requirement.—See General Instruction D(3) regarding the information to be reported in the entry space above line 1b on page 1 of the form.

Items 1g and 1h. Principal business activity code number and principal business activity.—See the last page of these instructions for a list of business code numbers and descriptions of principal business activities.

Schedule B

Category (1), (3), and (4) filers must complete Schedule B for U.S. persons that owned (at any time during the annual accounting period), directly or indirectly, 5% or more in value of any class of the corporation's outstanding stock.

Schedule C

Line 19.—The terms 'extraordinary items' and 'prior period adjustments' have the same meaning given to them by U.S. Generally Accepted Accounting Principles (GAAP) (see Opinion No. 30 of the Accounting Principles Board and Statement No. 16 of the Financial Accounting Standards Board).

Line 20. Provision for income, war profits, and excess profits taxes.—Enter on line 20 the income, war profits, and excess profits taxes deducted from the Income Statement in accordance with U.S. GAAP.

Note: Differences between this functional currency amount and the amount of taxes that reduce U.S. earnings and profits should be accounted for on line 2h of Schedule H.

Schedule E

List income, war profits, and excess profits taxes paid or accrued to the U.S. and to any foreign country or U.S. possession. Report these amounts in column (b) in the local currency in which the taxes are payable. Translate these amounts into U.S. dollars at the exchange rate as of the time the taxes were paid (or if unpaid, on the accrual date). Identify the exchange rate used in column (c) and report the translated dollar amount in column (d).

Schedule H

Lines 2a through 2i.—Certain adjustments required by Regulations sections 1.964-1(b) and (c) must be made to the CFC's line 1 net book income or loss to determine the CFC's earnings and profits for U.S. tax purposes. These adjustments may include both positive and negative adjustments to conform the foreign book income to U.S. GAAP and to U.S. tax accounting principles. Adjustments are required to reverse the effect of any accounting practice designed for purposes other than the clear reflection on a current basis of income and expense for the tax year, such as an allocation to an arbitrary reserve out of current income.

Lines 2b and 2c.—Generally, depreciation, depletion, and amortization allowances must be based on the historical cost of the underlying asset, and depreciation must be

computed in accordance with section 167 (or if 20% or more of the CFC's gross income is from U.S. sources, on a straight line basis in accordance with Regulations section 1.312-15).

Lines 2f and 2g.—Inventories must be taken into account in accordance with the rules of sections 471 (incorporating the provisions of section 263A) and 472 and the related regulations.

Line 2h.—See the instructions for line 20, Schedule C above.

Line 2i.—Enter on line 2i the net amount of any additional adjustments not included on lines 2a through 2h and list these additional adjustments on a separate schedule. Attach this separate schedule to Form 5471.

Blocked income.—The earnings and profits of the foreign corporation, as reflected on Schedule H, must not be reduced by all or any part of such earnings and profits that could not have been distributed by the foreign corporation, because of currency or other restrictions or limitations imposed under the laws of any foreign country.

Schedule I

Use Schedule I to report a U.S. shareholder's pro rata share of income includible under subpart F.

Subpart F income.—Generally, the income of a foreign corporation with U.S. shareholders is not taxed to such U.S. shareholders until the income is repatriated to the U.S. (e.g., through the payment of dividends to the U.S. shareholders or in the form of gain on the disposition of the U.S. shareholders' stock in the foreign corporation). However, section 951 provides that this deferral of U.S. tax is not available to U.S. shareholders of CFCs with certain types of income, including 'subpart F income.' Subpart F income is defined in section 952. Generally, the subpart F income of a CFC includes:

- (1) Adjusted net foreign base company income (which is computed on lines 1 through 21 of Worksheet A on pages 5 and 6 of these instructions);
- (2) Insurance income and related person insurance income (lines 22 and 23 of Worksheet A);
- (3) International boycott income (line 24 of Worksheet A);
- (4) Illegal bribes, kickbacks, and other payments (line 25 of Worksheet A); and
- (5) Income derived from a country described in section 952(a)(5) (line 26 of Worksheet A).

Other types of income not eligible for deferral include

- (1) Increase during the tax year in earnings of a CFC invested in U.S. property (Worksheet B), and
- (2) Amounts withdrawn from qualified investments in less developed countries and amounts withdrawn from qualified investments in foreign base company shipping operations (Worksheet C)

In addition, section 952(c)(2) states that to the extent the subpart F income of any CFC for any tax year was reduced by reason of the current earnings and profits limitation (which is described in the instructions for line 31 of Worksheet A), any excess of the earnings and profits of the CFC for any subsequent tax year over the subpart F income of the CFC for the tax year must be recharacterized as subpart F income.

Worksheet A

Line 1a.—Enter on this line: (a) dividend income; (b) interest income (except any interest that is derived in the conduct of a banking business and that is 'export financing interest' (as defined in section 904(d)(2)(G))); (c) income from rents and royalties (except rents and royalties that are derived in the active conduct of a trade or business and that are received from a person other than a 'related person' (as defined in section 954(d)(3))); and (d) income from annuities. Do not include certain income received from related persons (described in section 954(c)(3)). Interest income includes factoring income arising when a person acquires a trade or service receivable (directly or indirectly) from a related person. The income is treated as interest on a loan to the obligor under section 864(d)(1) and is generally not eligible for the de minimis, export financing, and related party exceptions to the inclusion of subpart F income. Furthermore, a trade or service receivable acquired by a CFC is considered an investment in U.S. property for purposes of section 956 (Worksheet B) if the obligor is a U.S. person.

Line 1b.—Enter the excess of gains over losses from the sale or exchange of: (a) property that produces the type of income reportable on line 1a; (b) an interest in a trust, partnership, or REMIC; or (c) property that does not give rise to any income. Do not include on this line the following: (a) in the case of any regular dealer in property, gains and losses from the sale or exchange of any such 'dealer property' or gains and losses arising out of bona fide hedging transactions reasonably necessary to the conduct of the business of being a dealer in such property, and (b) gains and losses from the sale or exchange of any property that, in the hands of the CFC, is properly described in section 1221(1).

Line 1c.—Enter the excess of gains over losses from transactions (including futures, forward, and similar transactions) in any commodities. See section 954(c)(1)(C) for exceptions.

Line 1d.—Enter the excess of "foreign currency gains" over "foreign currency losses" (see section 988(b) for definitions), except for transactions directly related to the business needs of a CFC.

Line 1e.—Enter any income equivalent to interest, including income from commitment fees (or similar amounts) for loans actually made.

Lines 10 and 12. De minimis rule.—If the sum of foreign base company income (determined without regard to the deductions of section 954(b)(5)) and the 'gross insurance income' (as defined in section 954(b)(3)(C)) for the tax year is less than the lesser of 5% of gross income (for income tax purposes) or \$1,000,000, no portion of the gross income for the tax year is to be treated as foreign base company income or insurance income.

Lines 11, 13, and 14. Special characterization rule.—If the sum of the foreign base company income (determined without regard to the deductions of section 954(b)(5)) and the gross insurance income for the tax year exceeds 70% of gross income (for income tax purposes), the entire gross income for the tax year must, subject to the "exception for certain income subject to high foreign taxes" described below and

the 'deductions to be taken into account' under section 954(b)(5), be treated as foreign base company income or insurance income (whichever is appropriate).

Lines 15e, 16d, 17d, 18d, and 20d.

Exception for certain income subject to high foreign taxes.—Foreign base company income and insurance income must not include any item of income received by a CFC if the taxpayer can establish that such income was subject to an effective rate of income tax imposed by a foreign country that is greater than 90% of the maximum rate of tax specified in section 11. This rule does not apply to "foreign base company oil-related income" as described in section 954(a)(5). See Temporary Regulations section 1.954-1T(d) for more information.

Line 22. Insurance Income.—For purposes of determining a shareholder's pro rata share of the subpart F income of a CFC, "insurance income" is any income that: (a) is attributable to the issuing (or reinsuring) of any insurance or annuity contract: (i) in connection with property in, liability arising out of an activity in, or in connection with the lives or health of residents of, a country other than the country under the laws of which such CFC is created or organized, or (ii) in connection with risks not described in (i) above, as the result of any arrangement whereby another corporation receives a substantially equal amount of premiums or other consideration for issuing (or reinsuring) a contract described in (i) above; and (b) would (subject to the modifications provided in sections 953(b)(1) and 953(b)(2)) be taxed under subchapter L (insurance company tax) if such income were income of a domestic insurance company.

Line 23. Related Person Insurance Income.—For purposes of determining a shareholder's pro rata share of the subpart F income of a CFC, "related person insurance income" is any "insurance income" (within the meaning of section 953(a)) attributable to a policy of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "U.S. shareholder" (as defined in section 953(c)(1)(A)) in a "controlled foreign corporation" (as defined in section 953(c)(1)(B)), or a "related person" (as defined in section 953(c)(6)) to such a shareholder. In such case, the "pro rata share" referred to above is to be determined under the rules of section 953(c)(5).

Exceptions: The above definition does not apply to any foreign corporation if:

(a) At all times during the tax year of such foreign corporation, less than 20% of the

total combined voting power of all classes of stock of such corporation entitled to vote, and less than 20% of the total value of such corporation, is owned (directly or indirectly) under the principles of section 883(c)(4)) by persons who are (directly or indirectly) insured under any policy of insurance or reinsurance issued by such corporation or who are related persons to any such person;

(b) The related person insurance income (determined on a gross basis) of such corporation for the tax year is less than 20% of its insurance income for such tax year determined without regard to the provisions of section 953(a)(1) that limit insurance income to income from countries other than the country in which the corporation was created or organized; or

(c) Such corporation: (i) elects to treat its related person insurance income for such tax year as income effectively connected with the conduct of a trade or business in the U.S. (ii) elects to waive all treaty benefits (other than with respect to section 884) with respect to related person insurance income, and (iii) meets any requirement the IRS may prescribe to ensure that any tax on such income is paid. This election will not be effective if the corporation was a "disqualified corporation" (as defined in section 953(c)(3)(E)) for the tax year for which the election was made or for any prior tax year beginning after 1986. See section 953(c)(3)(D) for special rules for this election.

Mutual Insurance Companies.—The related person insurance income rules also apply to mutual insurance companies under regulations prescribed by the Secretary. For these purposes, policyholders must be treated as shareholders.

Line 24. International Boycott Income.—If a CFC or a member of a controlled group (within the meaning of section 993(a)(3)) that includes the CFC has operations in, or related to, a country (or with the government, a company, or a national of a country) which requires participation in or cooperation with an international boycott as a condition of doing business within such country or with the government, company, or national of that country, a portion of the income of the CFC is included in subpart F income. The amount included in subpart F income is determined by multiplying the income of the CFC (other than income included under section 951 and U.S. source effectively connected business income described in section 952(b)) by the international boycott factor. The international

boycott factor is a fraction determined on Schedule A (Form 5713).

Special Rule.—If the shareholder of a CFC can clearly demonstrate that the income earned for the tax year is attributable to specific operations, then, instead of applying the international boycott factor, the addition to subpart F income is the amount specifically attributable to the operations in which there was participation in or cooperation with an international boycott. See Schedule B (Form 5713).

Line 25. Illegal Bribes, Kickbacks, or Other Payments.—Under section 952(a)(4), the sum of the amounts of any illegal bribes, kickbacks, or other payments (within the meaning of section 162(c)) paid by or on behalf of the corporation, directly or indirectly, to an official, employee, or agent of a government is considered subpart F income.

Line 26. Income Derived From a Country Described in Section 952(a)(5).—The income of a CFC that is derived from any country described in section 901(j) will be deemed to be income to the U.S. shareholders of such CFC. As of the date these instructions were revised, the countries described in section 901(j) included: Afghanistan, Albania, Angola, Cambodia, Cuba, Iran, Iraq, Libya, North Korea, South Africa, Syria, and Vietnam.

Line 28. Exclusion of U.S. Income.—Subpart F income does not include any U.S. source income (which, for these purposes, includes all carrying charges and all interest, dividends, royalties, and other investment income received or accrued by a FSC) that is effectively connected with such CFC's conduct of a trade or business in the U.S. unless such item is exempt from taxation (or is subject to a reduced rate of tax) pursuant to a treaty obligation of the U.S.

Line 31. Earnings and Profits Limitation.—The subpart F income of a CFC is limited to its current year earnings and profits, computed under the special rule of section 952(c)(3).

The amount included in the gross income of a U.S. shareholder of a CFC under section 951(a)(1)(A)(i) for any tax year and attributable to a "qualified activity" must be reduced by the amount of such shareholder's "pro rata share" of any "qualified deficit" (see section 952(c)(1)(B)).

Also, see section 952(c)(1)(C) for certain current year deficits of a member of the same chain of corporations that may be taken into account in determining subpart F income.

Worksheet A—Computation of Foreign Base Company Income and Summary of U.S. Shareholder's Pro Rata Share of Subpart F Income of a CFC

1 Gross foreign personal holding company income:

a Dividends, interest, royalties, rents, and annuities (section 954(c)(1)(A) income excluding amounts described in sections 954(c)(2) and (3)). See instructions.	1a	
b Excess of gains over losses from certain property transactions (section 954(c)(1)(B)). See instructions	1b	
c Excess of gains over losses from commodity transactions (section 954(c)(1)(C)). See instructions	1c	
d Excess of foreign currency gains over foreign currency losses (section 954(c)(1)(D)). See instructions	1d	
e Income equivalent to interest (section 954(c)(1)(E)). See instructions	1e	
2 Gross foreign personal holding company income. Add lines 1a through 1e		2
3 Gross foreign base company sales income (see section 954(d))		3
4 Gross foreign base company services income (see section 954(e))		4
5 Gross foreign base company shipping income (see section 954(f)) after application of sections 954(b)(6) and (7).		5
6 Gross foreign base company oil-related income (see section 954(g))		6
7 Gross foreign base company income. Add lines 2 through 6		7
8 Gross insurance income (see section 954(b)(3)(C) and the instructions for lines 22 and 23)		8
9 Gross foreign base company income and gross insurance income. Add lines 7 and 8		9
10 Enter 5% of total "gross income" (as computed for income tax purposes). See instructions		10
11 Enter 70% of total "gross income" (as computed for income tax purposes). See instructions		11
12 If line 9 is less than line 10 and less than \$1,000,000, enter zero on this line and skip lines 13 through 23		12
13 If line 9 is more than line 11, enter total "gross income" (as computed for income tax purposes). See instructions		13
14 Total adjusted gross foreign base company income and insurance income (enter the greater of line 9 or line 13)		14

15 Adjusted net foreign personal holding company income:

a Enter amount from line 2	15a	
b Related person interest expense. See section 954(b)(5)	15b	
c Other expenses apportioned and allocated to the amount on line 2 under section 954(b)(5).	15c	
d Net foreign personal holding company income. Subtract the sum of lines 15b and 15c from line 15a	15d	
e Net foreign personal holding company income subject to high-tax exception. See instructions.	15e	
f Adjusted net foreign personal holding company income. Subtract line 15e from line 15d.		15f

16 Adjusted net foreign base company sales income:

a Enter amount from line 3	16a	
b Expenses apportioned and allocated to the amount on line 3 under section 954(b)(5).	16b	
c Net foreign base company sales income. Subtract line 16b from line 16a	16c	
d Net foreign base company sales income subject to high-tax exception. See instructions	16d	
e Adjusted net foreign base company sales income. Subtract line 16d from line 16c.		16e

17 Adjusted net foreign base company services income:

a Enter amount from line 4	17a	
b Expenses apportioned and allocated to line 4 under section 954(b)(5).	17b	
c Net foreign base company services income. Subtract line 17b from line 17a	17c	
d Net foreign base company services income subject to high-tax exception. See instructions	17d	
e Adjusted net foreign base company service income. Subtract line 17d from line 17c		17e

18 Adjusted net foreign base company shipping income:

a Enter amount from line 5	18a	
b Expenses apportioned and allocated to line 5 under section 954(b)(5).	18b	
c Net foreign base company shipping income. Subtract line 18b from line 18a	18c	
d Net foreign base company shipping income subject to high-tax exception. See instructions	18d	
e Adjusted net foreign base company shipping income. Subtract line 18d from line 18c.		18e

Worksheet A (continued)

19 Adjusted net foreign base company oil-related income:		
a Enter amount from line 6	19a	
b Expenses apportioned and allocated to line 6 under section 954(b)(5).	19b	
c Adjusted net foreign base company oil-related income. Subtract line 19b from line 19a		19c
20 Adjusted net full inclusion foreign base company income:		
a Enter the excess of line 13 over line 9, if any	20a	
b Expenses apportioned and allocated under section 954(b)(5).	20b	
c Net full inclusion foreign base company income. Subtract line 20b from line 20a	20c	
d Net full inclusion foreign base company income subject to high-tax exception. See instructions.	20d	
e Adjusted net full inclusion foreign base company income. Subtract line 20d from line 20c		20e
21 Adjusted net foreign base company income. Add lines 15f, 16e, 17e, 18e, 19c, and 20e		21
22 Insurance income (other than related person insurance income). See instructions		22
23 Related person insurance income. See instructions		23
24 International boycott income. See instructions		24
25 Illegal bribes, kickbacks, and other payments (section 952(a)(4)). See instructions.		25
26 Income derived from a country described in section 952(a)(5). See instructions		26
27 Gross subpart F income. Add lines 21 through 26		27
28 Portion of line 27 that is U.S. source income effectively connected with a U.S. trade or business. See instructions	28	
29 Exclusions under section 959(b)	29	
30 Subpart F income. Subtract the sum of lines 28 and 29 from line 27		30
31 Current earnings and profits. See instructions		31
32 Enter the smaller of line 30 or line 31		32
33 Shareholder's pro rata share of line 32.	33	
34 Shareholder's pro rata share of export trade income	34	
35 Subtract line 34 from line 33	35	
36 Divide the number of days in the tax year that the corporation was a CFC by the number of days in the tax year and multiply the result by line 35	36	
37 Dividends paid to any other person with respect to your stock during the tax year.	37	
38 Divide the number of days in the tax year you did not own such stock by the number of days in the tax year and multiply the result by line 35	38	
39 Enter the smaller of line 37 or line 38	39	
40 Shareholder's pro rata share of subpart F income. Subtract line 39 from line 36. Enter the result on line 1, Schedule I.		40

Worksheet B—U.S. Shareholder's Pro Rata Share of Increase in Earnings of a CFC Invested in U.S. Property

1 Amount of "U.S. property" (as defined in section 956(b)) held, directly or indirectly, by the CFC at the close of the tax year	1	
2 Dividend limitation of Regulations section 1.956-1(b) with respect to line 1	2	
3 Amount of earnings of the CFC invested in U.S. property at the close of the tax year that would have constituted a dividend if distributed (enter the smaller of line 1 or line 2)	3	
4 Amount of U.S. property held, directly or indirectly, by the CFC at the close of the preceding tax year	4	
5 Dividend limitation of Regulations section 1.956-1(b) with respect to line 4	5	
6 Amount of earnings of the CFC invested in U.S. property at the close of the preceding tax year that would have constituted a dividend if distributed (enter the smaller of line 4 or line 5).	6	
7 Amounts paid during the preceding tax year to which section 959(c)(1) applies.	7	
8 Subtract line 7 from line 6.	8	
9 U.S. shareholder's pro rata share of line 3 (see Regulations section 1.956-1(c))	9	
10 U.S. shareholder's pro rata share of line 8 (see Regulations section 1.956-1(c))	10	
11 Subtract line 10 from line 9	11	
12 Divide the number of days in the tax year that the foreign corporation was a CFC by the number of days in the tax year and multiply the result by line 11	12	
13 Enter the portion of line 12 that is excluded from gross income under section 959(a)(2) (see Regulations section 1.959-1(c) for details)	13	
14 U.S. shareholder's pro rata share of the increase in earnings of the CFC invested in U.S. property (subtract line 13 from line 12). Enter the result here and on line 2, Schedule I.	14	

Worksheet C—U.S. Shareholder's Pro Rata Share of Previously Excluded Subpart F Income of a CFC Withdrawn From Qualified Investments in Less Developed Countries and From Qualified Investments in Foreign Base Company Shipping Operations

1	Decrease in qualified investments in less developed countries (see Regulations section 1.955-1(b)(1)) and foreign base company shipping operations (see Regulations section 1.955A-1(b)(1))	1	
2	Limitation (see Regulations section 1.955-1(b)(2)):		
a	Enter the sum of earnings and profits for the tax year and earnings and profits accumulated for prior tax years beginning after 1962	2a	
b	Enter the sum of amounts invested in less developed countries or foreign base company shipping operations and excluded from foreign base company income for all prior tax years, less the sum of such amounts withdrawn for such years (see Regulations section 1.955-1(b)(2)(i))	2b	
3	Enter the smaller of line 2a or line 2b	3	
4	Previously excluded subpart F income withdrawn for the tax year (enter the smaller of line 1 or line 3)	4	
5	U.S. shareholder's pro rata share of line 4 (see Regulations section 1.955-1(c))	5	
6	Divide the number of days in the tax year that the foreign corporation was a CFC by the number of days in the tax year and multiply the result by line 5. Enter the result here and on line 3, Schedule I	6	

Worksheet D—U.S. Shareholder's Pro Rata Share of Previously Excluded Export Trade Income of a CFC Withdrawn From Investment in Export Trade Assets

1	Decrease in investments of the CFC in export trade assets (see Regulations section 1.970-1(d)(3))	1	
2	U.S. shareholder's pro rata share of line 1	2	
3	U.S. shareholder's pro rata share of the sum of earnings and profits of the CFC for the tax year and earnings and profits accumulated for prior tax years beginning after 1962 (see Regulations section 1.970-1(c)(2)(ii))	3	
4	Limitation under section 970(b) (see Regulations section 1.970-1(c)(2)(i)):		
a	U.S. shareholder's pro rata share of the sum of the amounts by which the CFC's subpart F income for prior tax years was reduced under section 970(a)	4a	
b	U.S. shareholder's pro rata share of the sum of the amounts that were not included in subpart F income of the CFC for prior tax years by reason of Regulations section 1.972-1	4b	
c	Add lines 4a and 4b	4c	
d	U.S. shareholder's pro rata share of the sum of the amounts that were previously included in his or her gross income for prior tax years under section 951(a)(1)(A)(ii) by reason of section 970(b)	4d	
5	Subtract line 4d from line 4c	5	
6	Enter the smallest of line 2, 3, or 5	6	
7	Divide the number of days in the tax year that the foreign corporation was a CFC by the number of days in the tax year and multiply the result by line 6. Enter the result here and on line 4, Schedule I	7	

Worksheet B

A U.S. shareholder of a CFC must complete Worksheet B to determine his or her pro rata share of the increase during the tax year in the earnings of such CFC invested in U.S. property to the extent not excluded from gross income under section 959(a)(2). See section 956 for additional information. In accordance with section 989(b), translate the amount on line 14 of Worksheet B from the CFC's functional currency into U.S. dollars at the spot rate on the last day of the CFC's tax year and enter this amount on line 2, Schedule I.

Worksheet C

A U.S. shareholder of a CFC must complete Worksheet C to determine his or her pro rata share of such CFC's previously excluded subpart F income withdrawn from investment in less developed countries. See section 951(a)(1)(A)(ii) for additional information.

A U.S. shareholder of a CFC must complete Worksheet C to determine his or

her pro rata share of the CFC's previously excluded subpart F income withdrawn from foreign base company shipping operations. See section 955(a)(3) for additional information.

Schedule I (continued from page 3)

Line 5. Factoring Income.—Include on this line the factoring income (as defined in section 864(d)(1)) if no subpart F income is reported on line 1a, Worksheet A, because of the operation of the de minimis rule (see lines 1a, 10, and 12 of Worksheet A and the related instructions).

Line 6.—Add lines 1 through 5 and enter the result here and on your income tax return. If you are preparing Form 5471 for a shareholder that is a U.S. corporation, enter the result on line 14, column (a), Schedule C, Form 1120, or on the comparable line of other corporate income tax returns. If you are preparing Form 5471 for noncorporate U.S. shareholders, enter the result on line 5, Schedule B, Form 1040, or on the

comparable line of other noncorporate income tax returns.

Schedule J

Column (b)

See Notice 88-70, 1988-2 C.B. 369, for rules for the translation of pre-1987 accumulated earnings and profits.

Column (d)(i)

This column is used to maintain a running balance of the foreign corporation's earnings and profits that have accumulated since 1962 that are attributable to amounts that: (1) have (in the current tax year or in prior tax years) been included in the income of its shareholders under section 951(a)(1)(B) (or would have been included if not for the exclusionary rule of section 959(a)(2)), and (2) have yet to be distributed to its shareholders. The running balance is necessary as a result of the allocation of distribution rules of section 959(c).

Column (d)(ii)

This column is used to maintain a running balance of the foreign corporation's earnings and profits that have accumulated since 1962 that are attributable to amounts that: **(1)** have been included in the income of its shareholders under section 951(a)(1)(A) (but reduced by amounts included in column (d)(i)) and **(2)** have yet to be distributed to its shareholders. The running balance is necessary as a result of the allocation of distribution rules of section 959(c).

Schedule K

Under the following circumstances, one person may file Form 5471 and the applicable schedules for other persons who have the same filing requirements. If you are a Category (1), (2), (3), or (4) filer and one or more other persons are required to furnish information for the same foreign corporation for the same period, in lieu of making separate information returns, a joint information return that contains the required information may be filed with your income tax return or with the income tax return of any one of the other persons. However, in the case of Categories (2) and (3), the required information may only be filed by another person having an equal or greater interest (measured in terms of value of stock of the foreign corporation).

The person that files the required information on behalf of other persons must complete Schedule K.

Filing Requirements for Persons on Whose Behalf Required Information is Filed.—

These persons are not required to complete Schedule K. Instead, they must attach a statement to their income tax returns that: **(a)** indicates that their filing requirements have been or will be satisfied, **(b)** identifies the return with which the information was or will be filed, and **(c)** identifies the IRS Service Center where the return was or will be filed.

Other persons on whose behalf required information is filed:

Category (1): A U.S. citizen or resident described in Category (1) that is a '10% shareholder' (as defined in Regulations section 1.6035-1(b)(2)) that does not own 10% or more in value of the outstanding stock **directly** but is required to file an information return solely by attribution of another U.S. person's stock ownership is excused from filing if the direct owner that is an individual furnishes all the information required. The person on whose behalf the required information is filed must attach a statement to his or her income tax return that contains the information described in 'Filing Requirements for Persons on Whose Behalf Required Information is Filed' above.

Category (2): A U.S. officer or director described in Category (2) is excused from filing an information return if: **(a)** immediately after a reportable acquisition, three or fewer U.S. persons own 95% or more in value of the outstanding stock of such foreign corporation and the U.S. person making such acquisition files a return with respect to such acquisition under Category (3), or **(b)** such U.S. officer or director does not **directly** own an interest in the foreign corporation and is required to furnish the information solely by reason of attribution of stock ownership from a U.S. person under Regulations section 1.6046-1(i) and the person from whom the stock ownership is

attributed furnishes all of the information required of such U.S. officer or director under Regulations sections 1.6046-1(b) and (c). If one or both of these exceptions is met, the U.S. officer or director on whose behalf the required information is filed must attach a statement to his or her income tax return that contains the information described in 'Filing Requirements for Persons on Whose Behalf Required Information is Filed' above.

Category (3): A U.S. person described in Category (3) is excused from filing if such U.S. person does not **directly** own an interest in the foreign corporation and is required to furnish the information solely by reason of attribution of stock ownership from a U.S. person under Regulations section 1.6046-1(i) and the person from whom the stock ownership is attributed furnishes all of the information required of such U.S. person under Regulations sections 1.6046-1(b) and (c). The U.S. person on whose behalf the required information is filed must attach a statement to his or her income tax return that contains the information described in 'Filing Requirements for Persons on Whose Behalf Required Information is Filed' above.

Category (4): A U.S. person described in Category (4) that does not **directly** own an interest in the foreign corporation and is required to file solely by reason of the attribution of stock ownership rules of Regulations section 1.6038-2(c) is excused from filing if the person from whom the stock ownership is attributed files all the information required. The U.S. person on whose behalf the required information is filed must attach a statement to his or her income tax return that contains the information described in 'Filing Requirements for Persons on Whose Behalf Required Information is Filed' above.

Schedule M

Schedule M is an information return required by section 6038. Every U.S. person described in Category (4) must file Schedule M. Schedule M is filed to report the transactions of the foreign corporation's annual accounting period ending with or within the U.S. person's tax year.

Columns (c) and (d).—See section 6038(e)(1) for the definition of "control."

Schedule N

Schedule N is an information return required by section 6035. Every U.S. person described in Category (1) must file Schedule N. Schedule N is used to report the activities of a foreign personal holding company. All amounts must be computed in the foreign corporation's functional currency and translated into U.S. dollars at the weighted average exchange rate for the year (as defined in Temporary Regulations section 1.989(b)-1T). **Note:** *For purposes of computing a shareholder's taxable income (on the shareholder's income tax return), actual dividends (but not deemed inclusions of undistributed foreign personal holding company income) are translated into dollars at the spot rate on the date the dividend is included in income. See sections 989(b)(1) and (3).*

Foreign Personal Holding Company.—A foreign corporation qualifies as a foreign personal holding company if: **(a)** at any time during the tax year more than 50% of the combined voting power of all classes of stock

entitled to vote or the total value of the stock of the corporation is owned (directly or indirectly) by or for a group of five or fewer U.S. citizens or residents, and **(b)** the foreign corporation meets the 'gross income test' (described below).

The following entities do not qualify as foreign personal holding companies:

(1) A corporation exempt from income tax under subchapter F (sections 501-528); and

(2) A corporation organized and doing business under the banking and credit laws of a foreign country if it is established to the satisfaction of the Secretary that the corporation is not being used to avoid or evade taxes that would normally be imposed upon its shareholders. If the corporation meets this test, the Secretary will issue a certificate that the corporation is not a foreign personal holding company.

Shareholders of a foreign corporation that qualifies for exception (2) above must attach a copy of the Secretary's certificate to their income tax return for each tax year that they are shareholders in the corporation.

Gross Income Test.—This test is met if at least 60% of the foreign corporation's gross income (as defined in section 555(a)) is foreign personal holding company income (defined below).

Once a foreign personal holding company meets the gross income test, the minimum percentage is lowered to 50% for any subsequent tax year. The foreign corporation will, however, continue to be considered a foreign personal holding company until either: **(1)** the stock requirement test is not met, or **(2)** the end of 3 consecutive tax years in each of which less than 50% of the gross income is foreign personal holding company income.

Foreign Personal Holding Company Income.—This type of income includes dividend income, interest income, rental income (unless such income constitutes 50% or more of the gross income of the foreign corporation), income from royalties, and income from annuities. It also includes gains from the sale or exchange of stock or securities (except in the case of regular dealers of stock or securities), certain gains from commodities transactions, and certain income from estates and trusts, personal service contracts, and the use of the foreign corporation's property by a shareholder. See section 553 for more information.

Who Must File.—Every U.S. citizen or resident who is an officer, director, or 10% or more (either directly or indirectly) shareholder in a foreign personal holding company must file Schedule N. The information is submitted for the foreign personal holding company's annual accounting period that ends with or within the officer's, director's, or shareholder's tax year.

Whether an individual is considered an officer, director, or 10% or more shareholder is determined on the date Form 5471 is required to be filed. If no individual qualifies as of that date, the determination is made on the last day of the foreign corporation's tax year in which there was such a person who was a U.S. citizen or resident.

An individual is considered to own the stock owned by members of his or her family as described in section 554(a)(2).

Corporation That Ceases To Be a Foreign Personal Holding Company.—You must file Schedule N for a corporation that ceased to be a foreign personal holding company

during the tax year or after the tax year ended, if it was a foreign personal holding company at any time during the tax year

First-time Filer.—If this is the first time you are submitting information required under section 6035, attach the following information:

(a) A statement of stock ownership showing that during the corporation's tax year more than 50% in value of its outstanding stock was owned, directly or indirectly, by or for not more than five individual citizens or residents of the U.S.

(b) A detailed statement of the conversion privileges of any outstanding securities that are convertible to the corporation's stock.

(c) A detailed statement of the respective rights of the various classes of shareholders if more than one class of stock is outstanding.

This information does not, however, need to be submitted if it was previously furnished by another person.

Part I—Shareholder Information

Section A.—List in Section A the outstanding securities of the foreign personal holding company that are convertible into the stock of the foreign personal holding company. List the interest rate and the face value of the securities at the beginning and end of the corporation's annual accounting period. Also list any options granted by the corporation during its tax year.

Section B.—Identify each person who is the holder of convertible securities in the foreign personal holding company. Also, enter the class of securities held, the number and face value at the beginning and end of the corporation's tax year, and an explanation of any change in the holdings for each person holding the convertible securities.

Enter the name and address of each person granted an option for the stock of the foreign personal holding company.

Part II—Income Information

Section A.—Computation of Undistributed Foreign Personal Holding Company Income

Line 4a. Taxes.—Enter the difference between the taxes expense you deducted for purposes of computing taxable income and the taxes expense allowable under section 556(b)(1) for purposes of computing undistributed foreign personal holding company income.

Section 556(b)(1) provides a deduction for income taxes accrued (or in some cases, paid) during the tax year but not including the accumulated earnings tax imposed by section 531 or the personal holding company tax imposed by section 541.

Attach a schedule showing: (a) the nature of income on which Federal income tax was paid or withheld at the source; (b) when and where the tax was paid or withheld; (c) the amount of tax paid or accrued; and (d) the tax year to which the tax relates.

Also, attach a schedule of income, war profits, and excess profits taxes of foreign countries and U.S. possessions accrued during the tax year to the extent not allowable as a deduction because a foreign tax credit was claimed.

Line 4b. Charitable contributions.—Enter the difference between the charitable contributions deducted for purposes of computing taxable income and the charitable

contributions allowable under section 556(b)(2) for purposes of computing undistributed foreign personal holding company income.

Section 556(b)(2) and the related regulations apply to the limitations in sections 170(b)(1)(A), (B), and (D).

The term 'contribution base' when used in section 170(b)(1) means the corporation's taxable income computed: (1) with the adjustments, other than the 10% limitation, provided in section 170(b)(2), (2) without the deduction of the amount disallowed under section 556(b)(5) (relating to expenses and depreciation applicable to property of the taxpayer) and section 556(b)(6) (relating to taxes and contributions to pensions and trusts), and (3) without including dividends under section 555(b).

The carryover of charitable contributions made in a prior year is not allowed as a deduction in computing undistributed foreign personal holding company income for any tax year

Line 4c. Special deductions disallowed.—The special deductions described in section 556(b)(3) are not allowed for purposes of computing undistributed foreign personal holding company income. Therefore, they must be added back to taxable income in computing undistributed foreign personal holding company income. Enter these amounts on line 4c as a positive number

Line 4d. Net operating loss.—Section 556(b)(4) provides that in lieu of the net operating loss deduction allowed for purposes of computing taxable income (as provided in section 172) there will be allowed for purposes of computing undistributed foreign personal holding company income the amount of the net operating loss (as defined in section 172(c)) for the preceding tax year computed without the deductions provided in sections 241 through 247, 249, and 250. As such, you must enter the difference between these two amounts on line 4d.

Line 4e. Expenses and depreciation applicable to property of the taxpayer.—Enter the amount of such expenses limited by section 556(b)(5) as a positive number on line 4e. For purposes of computing undistributed foreign personal holding company income, section 556(b)(5) limits the allowance of deductions for trade or business expenses and depreciation that are allocable to the operation and maintenance of the property owned or operated by a foreign personal holding company. These deductions will not be allowed in excess of the aggregate amount of the rent or other compensation received for the use of, or the right to use, the property unless it is established to the satisfaction of the Commissioner:

(a) that the rent or other compensation received was the highest obtained, or if none was received, that none was obtainable;

(b) that the property was held in the course of a business carried on for profit; and

(c) either that there was reasonable expectation that the operation of the property would result in a profit or that the property was necessary to the conduct of the business.

If excess deductions are claimed, attach a statement for each property showing the following:

(a) a description of the property;

(b) the cost or other basis to the corporation and the nature and value of the consideration paid for the property;

(c) the name and address of the person from whom the property was acquired and the date the property was acquired;

(d) the name and address of the person to whom the property was leased or rented, or the person permitted to use the property, and the number of shares of stock, if any, held by the person and the members of his or her family;

(e) the nature (cash, securities, services, etc.) and the gross amount of rent or other compensation received or accrued for the use of, or the right to use, the property during the tax year and for each of the 5 preceding years and the amount of expense incurred with respect to, and the depreciation sustained on, the property for such years;

(f) evidence that the rent or other compensation was the highest obtainable or, if none was received or accrued, a statement of the reason that none was received or accrued;

(g) a copy of the contract, lease, or rental agreement;

(h) the purpose for which the property was used;

(i) the business carried on by the corporation for which the property was held and the gross income, expenses, and taxable income derived from the conduct of such business for the tax year and for each of the 5 preceding years;

(j) the reasons for acquiring the property, for expecting that it would be profitable, and for using the property in the business of the corporation; and

(k) any other information in support of the deductions.

Line 4f.—Deductions for taxes and payments to employees' pension trusts not allowable under section 556(b)(6).—Enter the total amount of any deductions taken in computing taxable income under the provisions of section 164(e), relating to taxes of a shareholder paid by the corporation, and section 404, relating to pension, trusts, etc.

Line 8.—Deduction allowed under section 563(c) for dividends paid after close of tax year.—Enter all dividends paid after the close of the tax year and on or before the 15th day of the 3rd month following the close of the year to the extent the foreign personal holding company designated such dividends as being taken into account under section 563(c). **Note:** This amount may not exceed the amount entered on line 7. See section 563(c) for additional information.

Section B. Deduction for dividends paid during tax year.—Enter the deduction for dividends paid provided in section 561. The deduction for dividends paid is the sum of the dividends paid during the tax year and the consent dividends for the tax year (determined under section 565).

The rules in section 562 will apply in determining the deduction for dividends paid. Compute the deduction in Section B and attach: (a) a copy of each dividend resolution, and (b) a concise statement of the pertinent facts relating to the payment of each dividend, clearly specifying: (1) the medium of payment; (2) if not paid in money, the fair market value and adjusted basis (or face value, if paid in the corporation's own obligations) on the date of distribution of the property; and (3) the

manner in which the fair market value and adjusted basis were determined.

Schedule O

Schedule O is an information return required by section 6046. Every U.S. person described in Category (2) (examples are listed below) must complete Schedule O. Part I. Every U.S. person described in Category (3) (examples are listed below) must complete Schedule O. Part II. Schedule O is used to report the organization or reorganization of a foreign corporation and the acquisition or disposition of its stock.

Examples of Category (2) Filers:

(1) Mr. Harris is a U.S. citizen who is a director of a foreign corporation. Mr. Johnson, also a U.S. citizen, acquired stock of that foreign corporation in the following transactions:

- (a) On March 1, 1989, Mr. Johnson acquires 2% in value of the foreign corporation's outstanding stock;
- (b) On October 1, 1989, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock; and
- (c) On December 1, 1989, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock.

Mr. Harris is required to report Mr. Johnson's December 1, 1989, transaction since Mr. Johnson at that point owned 5% or more in value of the outstanding stock of the foreign corporation.

(2) The facts are the same as above. Also, Mr. Johnson acquires an additional 4% in value of the foreign corporation's outstanding stock on March 1, 1990; and on April 1, 1990, Mr. Johnson acquires an additional 2% in value of the foreign corporation's outstanding stock.

Mr. Harris does not have to complete Schedule O for the March 1, 1990, transaction since Mr. Johnson had not acquired an additional 5% or more in value of the outstanding stock of the foreign corporation since Mr. Harris last filed Form 5471 and Schedule O. Mr. Harris is, however, required to complete Schedule O for the April 1, 1990, transaction since Mr. Johnson had, at that time, acquired an additional 5% or more in value of the foreign corporation's outstanding stock.

Examples of Category (3) Filers:

(1) On June 10, 1988, a calendar year domestic corporation, Z, acquires 6% in value of the outstanding stock of a foreign corporation. Z completes Form 5471 and Schedule O to report this transaction. On

July 7, 1989, Z acquires an additional 4% in value of the outstanding stock of the foreign corporation and on September 2, 1989, Z acquires an additional 2% in value of the foreign corporation's outstanding stock. Z is not required to complete Schedule O for the July 7, 1989, transaction, but Z must complete Schedule O to report the September 2, 1989, transaction since that transaction gives Z an additional 5% or more in value of the outstanding stock of the foreign corporation from the last time Z became liable for completing Schedule O (June 10, 1988).

(2) On May 1, 1989, D, a domestic corporation, owns 15% in value of the outstanding stock of a foreign corporation. On August 7, 1989, the foreign corporation was reorganized. As a result, D then owned 7% in value of the foreign corporation's outstanding stock. D must complete Schedule O to report this transaction.

(3) The facts are the same as in Example (2) above. Additionally, on October 1, 1989, D donates 3% in value of the outstanding stock of the foreign corporation to a charitable organization. D must complete Schedule O to report this transaction since the transaction reduces D's interest in the foreign corporation to less than 5% in value of its outstanding stock.

Part I—To Be Completed by U.S. Officers and Directors

Column (d).—Enter the date on which the shareholder first owned 5% or more in value of the outstanding stock of the foreign corporation (i.e. the date on which the shareholder became a person described in Regulations section 1.6046-1(a)(2)(i)(a)).

Column (e).—Enter the date on which the shareholder acquired (whether in one or more transactions) an additional 5% or more in value of the outstanding stock of the foreign corporation (i.e. the date on which the shareholder became a person described in Regulations section 1.6046-1(a)(2)(i)(b)).

Part II—To Be Completed by U.S. Shareholders

Section C.—Section C is completed by shareholders who are completing Schedule O because they have acquired sufficient stock in a foreign corporation. If the shareholder acquired the stock in more than one transaction, use a separate line to report each transaction.

Column (d).—Enter the method of acquisition (For example, 'purchase,' 'gift,' 'bequest,' 'trade,' etc.)

Column (e)(2).—Enter the number of shares acquired indirectly (within the meaning of section 958(a)(2)) by the shareholder listed in column (a).

Column (e)(3).—Enter the number of shares constructively owned (within the meaning of section 958(b)) by the shareholder listed in column (a).

Section D.—Shareholders who dispose of their interest (or part) in a foreign corporation must complete Section D.

Column (d).—Enter the method of disposition (such as sale, bequest, gift, trade, etc.).

Example for Section D

In 1987 Mr. Jackson, a U.S. citizen, purchased 10,000 shares of common stock of foreign corporation X. The purchase represented 10% ownership of the foreign corporation.

On July 1, 1990, Mr. Jackson made a gift of 5,000 shares of foreign corporation X to his son, John. Since Mr. Jackson has reduced his holding in the foreign corporation by 5%, he is required to complete Form 5471 and Schedule O. To show the required information about the disposition, Mr. Jackson completes Section D as follows.

Enters his name in column (a).

Enters 'common' in column (b).

Enters July 1, 1990, in column (c).

Enters 'gift' in column (d).

Enters 5,000 in column (e)(1).

Enters zero in column (f) since the disposition was by gift.

Enters the name and address of his son, John, in column (g).

Example of Requirement of Providing List If Foreign Corporation Is a Member of a Chain of Corporations

Mr. Lyons acquires a 10% ownership in foreign corporation F. F is the 100% owner of two foreign corporations, FI and FJ. F is also a 50% owner of foreign corporation FK. In addition, F is 90% owned by foreign corporation W.

Mr. Lyons completes and files Form 5471 and Schedule O for the corporations in which he is a 5% or more shareholder.

In addition, Mr. Lyons is required to submit a schedule if the foreign corporation is a member of a chain of corporations, and to indicate if he is a 5% or more shareholder in any of those corporations.

Mr. Lyons would prepare a list showing the corporations in the following order: corporation W, corporation F, corporation FI, corporation FJ, and corporation FK. Then Mr. Lyons is required to indicate that he is a 5% or more shareholder in corporations F, FI, FJ, and FK.

Codes for Principal Business Activity

These codes for the Principal Business Activity are designed to classify enterprises by the type of activity in which they are engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification (SIC) codes, they should not be used as SIC codes.

Using the list below, enter on page 1, item 1g, the code number for the specific industry group from which the largest percentage of "total receipts" is derived.

If, as its principal business activity, the corporation: (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under 'Manufacturing.'

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Code	
1010	Iron ores
1070	Copper, lead and zinc, gold and silver ores
1098	Other metal mining
1150	Coal mining

Oil and gas extraction

1330	Crude petroleum, natural gas, and natural gas liquids
1380	Oil and gas field services

Nonmetallic minerals, except fuels

1430	Dimension, crushed and broken stone; sand and gravel
1498	Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

1510	General building contractors
1531	Operative builders

Heavy construction contractors

Special trade contractors

1711	Plumbing, heating, and air conditioning
1731	Electrical work
1798	Other special trade contractors

Manufacturing

Food and kindred products

2010	Meat products
2020	Dairy products
2030	Preserved fruits and vegetables
2040	Grain mill products
2050	Bakery products
2060	Sugar and confectionery products
2081	Malt liquors and malt
2088	Alcoholic beverages, except malt liquors and malt
2089	Bottled soft drinks, and flavorings
2096	Other food and kindred products
2100	Tobacco manufacturers

Textile mill products

2228	Weaving mills and textile finishing
2250	Knitting mills
2298	Other textile mill products

Apparel and other textile products

2315	Men's and boys' clothing
2345	Women's and children's clothing
2388	Other apparel and accessories
2390	Miscellaneous fabricated textile products

Lumber and wood products

2415	Logging, sawmills, and planing mills
2430	Millwork, plywood, and related products
2498	Other wood products, including wood buildings and mobile homes
2500	Furniture and fixtures

Code

Paper and allied products

2625	Pulp, paper, and board mills
2699	Other paper products

Printing and publishing

2710	Newspapers
2720	Periodicals
2735	Books, greeting cards, and miscellaneous publishing
2799	Commercial and other printing, and printing trade services

Chemicals and allied products

2815	Industrial chemicals, plastics materials and synthetics
2830	Drugs
2840	Soap, cleaners, and toilet goods
2850	Paints and allied products
2898	Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

2910	Petroleum refining (including integrated)
2998	Other petroleum and coal products

Rubber and misc. plastics products

3050	Rubber products, plastics footwear, hose and belting
3070	Misc. plastics products

Leather and leather products

3140	Footwear, except rubber
3198	Other leather and leather products

Stone, clay, and glass products

3225	Glass products
3240	Cement, hydraulic
3270	Concrete, gypsum, and plaster products
3298	Other nonmetallic mineral products

Primary metal industries

3370	Ferrous metal industries; misc. primary metal products
3380	Nonferrous metal industries

Fabricated metal products

3410	Metal cans and shipping containers
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
3430	Plumbing and heating, except electric and warm air
3440	Fabricated structural metal products
3460	Metal forgings and stampings
3470	Coating, engraving, and allied services
3480	Ordnance and accessories, except vehicles and guided missiles
3490	Misc. fabricated metal products

Machinery, except electrical

3520	Farm machinery
3530	Construction and related machinery
3540	Metalworking machinery
3550	Special industry machinery
3560	General industrial machinery
3570	Office, computing, and accounting machines
3598	Other machinery except electrical

Code

Electrical and electronic equipment

3630	Household appliances
3665	Radio, television, and communication equipment
3670	Electronic components and accessories
3698	Other electrical equipment
3710	Motor vehicles and equipment
3725	Aircraft, guided missiles and parts
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles

Instruments and related products

3815	Scientific instruments and measuring devices, watches and clocks
3845	Optical, medical, and ophthalmic goods
3860	Photographic equipment and supplies
3998	Other manufacturing products

Transportation and Public Utilities

Transportation

4000	Railroad transportation
4100	Local and interurban passenger transit
4200	Trucking and warehousing
4400	Water transportation
4500	Transportation by air
4600	Pipe lines, except natural gas
4700	Miscellaneous transportation services

Communication

4825	Telephone, telegraph, and other communication services
4830	Radio and television broadcasting

Electric, gas, and sanitary services

4910	Electric services
4920	Gas production and distribution
4930	Combination utility services
4990	Water supply and other sanitary services

Wholesale Trade

Durable

5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment
5020	Furniture and home furnishings
5030	Lumber and construction materials
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies
5050	Metals and minerals, except petroleum and scrap
5060	Electrical goods
5070	Hardware, plumbing and heating equipment and supplies
5098	Other durable goods

Nondurable

5110	Paper and paper products
5129	Drugs, drug proprietaries, and druggists' sundries
5130	Apparel, piece goods, and notions
5140	Groceries and related products
5150	Farm-product raw materials
5160	Chemicals and allied products
5170	Petroleum and petroleum products
5180	Alcoholic beverages
5190	Misc. nondurable goods

Retail Trade

Building materials, garden supplies, and mobile home dealers

5220	Building materials dealers
5251	Hardware stores
5265	Garden supplies and mobile home dealers

5300 General merchandise stores

Food stores

5410	Grocery stores
5490	Other food stores

Automotive dealers and service stations

5515	Motor vehicle dealers
5541	Gasoline service stations
5598	Other automotive dealers
5600	Apparel and accessory stores
5700	Furniture and home furnishings stores
5800	Eating and drinking places

Code

Misc. retail stores

5912	Drug stores and proprietary stores
5921	Liquor stores
5995	Other retail stores

Finance, Insurance, and Real Estate

Banking

6030	Mutual savings banks
6060	Bank holding companies
6090	Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

6120	Savings and loan associations
6140	Personal credit institutions
6150	Business credit institutions
6199	Other credit agencies

Security, commodity brokers and services

6210	Security brokers, dealers, and flotation companies
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

6355	Life insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies
6359	Other insurance companies
6411	Insurance agents, brokers, and service

Real estate

6511	Real estate operators and lessors of buildings
6516	Lessors of mining, oil, and similar property
6518	Lessors of railroad property and other real property
6530	Condominium management and cooperative housing associations
6550	Subdividers and developers
6599	Other real estate

Holding and other investment companies, except bank holding companies

6744	Small business investment companies
6749	Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places

7200 Personal services

Business services

7310	Advertising
7389	Business services, except advertising

Auto repair; misc. repair services

7500	Auto repair and services
7600	Misc. repair services

Amusement and recreation services

7812	Motion picture production, distribution, and services
7830	Motion picture theaters
7900	Amusement and recreation services, except motion pictures

Other services

8015	Offices of physicians, including osteopathic physicians
8021	Offices of dentists
8040	Offices of other health practitioners
8050	Nursing and personal care facilities
8060	Hospitals
8071	Medical laboratories
8099	Other medical services
8111	Legal services
8200	Educational services
8300	Social services
8600	Membership organizations
8911	Architectural and engineering services
8930	Accounting, auditing, and bookkeeping
8980	Miscellaneous services (including veterinarians)